

Evidence

- **analysis of Navy data**
 - 30% average savings
 - Half of competitions won by in-house team
 - Some cases of no savings
 - Savings persisted over time
 - Greater savings (50% on average) from competing military functions
- **Other studies show similar savings**
 - LMI, RAND, Brookings, and others
- **CNA analysis of DoD data is consistent**

This is not a new process. Many researchers have documented the savings that come from competing work. (A review of this literature and additional references can be found in [3 through 10].) Competition provides two things. First, it provides cost visibility—people see (often for the first time) what it costs to provide a function. Second, it offers alternative providers. As these alternative providers compete to reduce costs and improve quality, they incorporate new technologies and methods.

Some are surprised that savings accrue even when the in-house team wins, but the savings are real. The in-house team's "bid" is actually a chance to reorganize the way work is performed, and is called a Most Efficient Organization, or MEO. An activity does lose billets when an MEO is implemented. (We use the term billets generically to apply to civilian positions or full time equivalents (FTEs) as well as military billets.)

Large-scale savings are possible if Navy commercial activities are competed, since roughly 200,000 Navy personnel (civilians and military) are performing commercial functions. Thus we focus on how to increase the scale and scope of the commercial activities program. Past problems and successes can serve as lessons learned for improving new studies,

All Services/Agencies See Savings

Service/agency	Completed competitions	Baseline civilians	Baseline military	Total annual savings (FY96 \$m)	Percentage savings
Army	510	23,191	4,853	470	27%
Air Force	733	17,495	8,603	560	36%
Marine Corps	39	1,107	157	23	34%
Navy	806	20,729	4,821	411	30%
DoD agency total	50	1,029	5	13	28%
Grand total	2,138	63,551	18,439	1,478	31%

Source: The DoD CA Competition Data (1978-1994) and CNA savings estimates.

There have been more than 2,000 A-76 full-scale competitions. (Direct outsourcings and simplified competitions are not part of these data.) These competitions were between 1978 and 1994, with most during the 1980s. A moratorium on competitions in 1992 effectively killed the DoD program. Only the Air Force started new competitions after the moratorium was lifted.

Whether the in-house team or contractor wins, the savings seem to come primarily from using fewer people to do the same job, rather than from using less expensive personnel.

Each service has had some very successful competitions but also some failures or disruptions. Many of the failures can be traced to badly written performance work statements or to using sealed-bid competitions that mandated the use of the lowest bidder.

These failures get the attention, but they are the exception, not the rule. Many in DoD report good working relationships with contractors, in part because mechanisms ensuring responsiveness can be added to contracts (e.g., guarantees, warranties, and award fees) and unqualified bidders can be eliminated.

Larger Competitions Seem To Provide Bigger Savings

Number of billets	Competitions	Percent savings
1 to 10	857	22%
11 to 30	728	28%
31 to 50	212	31%
51 to 75	115	27%
76 to 100	67	32%
101 to 200	88	29%
over 201	71	35%
Total	2,138	31%

Source: The DoD CA Competition Data (1978-I 994) **and** CNA savings estimates.

Although the difference is small, it does appear that larger competitions result in slightly higher percent savings. Because the savings come from using fewer people; larger competitions permit the most flexibility in how people are used. If base operations are combined into one contract, for example, the person who mows the lawns in the morning can paint buildings in the afternoon.

Interestingly, most full competitions are for activities involving fewer than 11 billets. Yet full competitions are not currently required for these small functions. These full competitions may have been done on the small functions because of old regulations, statutory limitations placed in the appropriation bills, perceived regulations, DoD policy, or a predisposition by managers to fragment functions (with the intent of increasing in-house competitiveness), or because the standardized process of a full competition is easier to defend.

What is clear is that the OMB A-76 program has yielded real savings. What process changes would encourage large-scale use of this program?

Top-level Actions

- Incentives are crucial
 - A fraction of savings, FITREP, support
- Have top leaders communicate importance
- Make reprogramming money easier
- Establish an Outsourcing Office
 - Clearing-house for template contracts, PWSs
 - Tiger teams to go to the field and aid implementation

Base commanders have the best information on what can and should be competed, yet they have almost no incentive to hold competitions. Their employees and function managers may view CA competitions as a threat to their jobs and work actively to delay the process. Thus, many commanders view competitions as time-consuming and disruptive to normal operations. What's more, their bases receive little if any of the savings that result, and the necessary reprogramming of funds (e.g., from MPN to O&MN if the contractor wins a formerly military function) may never show up at the base level. Thus, the base commander sees little reason to promote more efficient operations through CA competitions.

The process can be streamlined, and a CNO executive decision to compete would help tremendously, but to really kick start the competitions, the base commander needs better incentives. To increase the reward for the commander, let the base have a fraction of the savings for a limited time. It would also help to include A-76 management in the commander's FITREP.

A-76 competitions will be more successful if they are seen as a normal part of base management, and not as an added burden with no reward. In addition, the Navy could establish an Outsourcing Office to help implement the competition process. This office could promote additional A-76 training, review product work statements, provide tiger teams to supplement onsite personnel, and distribute cost comparison software and template performance work statements and contracts. By establishing this clearing-house, the Navy could bring together knowledge existing in different field activities, and the individual sites would not have to develop their own A-76 experts.

Current Process

- **No comparison is required for fewer than 11 employees**
 - A study is often done anyway
- **A simplified cost comparison is allowed for 11 to 50 employees**
 - The simplified process doesn't save much time
- **Independent review by Naval Audit Service**
- **Generally takes about 2 years**

Under current policy, small activities (involving fewer than 11 full-time equivalent employees) can be directly outsourced if the contracting officer can obtain fair and reasonable prices. Yet these activities are often competed anyway. Within the Navy, more than 50 percent of past competitions were for small functions which produce relatively little savings. Only 6 percent of total Navy savings were produced by these small competitions.

Despite their name, simplified cost comparisons aren't much simpler. Most of the time involved in A-76 studies is controlled by Federal acquisition regulations. Writing the performance work statement (PWS), for example, must be done for any outsourcing initiative.

A-76 rules require an independent verification of the process. The Navy uses its audit service. The Air Force, on the other hand, has its local financial management staff verify the process. The Air Force's method is appealing because it takes less time and evokes less resentment from local sites. Some would argue, however, that using the audit service avoids future protests and disputes. Unfortunately, it's difficult to evaluate that claim.

The competition process generally takes 2 years. The Air Force's most recent competition took 16 months, and the Navy is working to streamline its process as well.

When Isn't an A-76 Study Required?

- **Emerging requirements**
- **Eliminated or re-engineered function**
- **Military functions**
- **If a waiver is granted**
- **Functions now performed by another DoD component**

Even though there are many cases that are not subject to the A-76 process, it is often implemented anyway for many of the same reasons that small functions (with less than 11 civilians) are competed. For example, statutory limitations are sometimes placed in the appropriation bills, and DoD policy is sometimes more strict.

An A-76 competition is not required if the commercial activity was never in-house to begin with. The Navy is investing in things such as new child care facilities, hazardous material handling sites, and family housing units. Encouraging base commanders to contract for those services immediately avoids the time and expense of trying to compete that work later.

Similarly, re-engineering functions in a way that eliminates a requirement may not require an A-76 study. For example, by implementing direct vendor delivery of pharmaceuticals and food, DLA effectively eliminated the requirement for some of its warehousing function. The Office of Personnel Management is privatizing its background investigation operations without an A-76 study, by agreeing to no longer perform that function.

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By working with OMB, the Navy may be able to do the same for small functions (such as eyeglass manufacturing) or for large functions (such as galley operations) across the Navy. However, the Navy is subject to restrictions in its appropriations bill that OPM was not subject to, and OMB has not clearly defined the distinction between privatization and outsourcing.

Military functions can be directly outsourced without an A-76 study. Nevertheless, the services may choose to perform one anyway. The most recent Air Force competition was for a maintenance function performed by about 1,400 military personnel and 30 civilians.

Waivers can be used to outsource directly, but they have not been used extensively because a cost comparison is also required by the DoD appropriations bill (not necessarily an A-76 competition). The Navy could focus on waivers for activities where in-house cost information is already available, such as Defense Business Operations Fund (DBOF) activities. The Navy can also explore less burdensome types of competitions when A-76 does not apply or can be waived.

Finally, Navy functions obtained from another component of DoD may convert directly to contractors without a cost comparison. (As of 1996, Circular A-76 requires competitions when the function is provided by another Federal department or agency).

Making the Navy CA Program More Successful

- Increasing the number of competitions
- Increasing the scope of competitions
 - “Bundling” functions
- More/better training
- Speeding up individual comparisons
- Making each competition more effective
- Leveling the playing field
- Using better contracting methods
- Easing the pain
 - Informing and involving workers
 - Transition issues

There are many ways to improve the process. One is to increase the number of competitions, and another is to increase their scope. Rather than having, say, six different small competitions at a particular base, the base could run a single competition for all or combine like functions across bases.

Alternatively, each study can be improved and sped up. You can also level the playing field because the current procedures slightly favor the in-house team. Lastly, you can ease the pain of worker disruption during the study and during implementation of the study decision. We'll examine each of these measures in more detail.

Increasing the Number of Competitions

- **Incentives, incentives, incentives**
 - Let local sites have a fraction of the savings for a limited time
 - Make efficiency and rightsourcing part of the CO's FITREP
- **Scrub functions currently exempted**
 - Inherently governmental, canceled competitions, RDT&E, and reason codes
- **Make competitions routine**
 - Part of normal personnel reassignments
 - Continual training for all managers

There can be a lot of local resistance to competition. Often, the rules themselves have been less of a problem than the way those rules are applied. Local officials can make impediments of the rules if they see nothing to gain and everything to lose from the process. As we discussed earlier, the right incentives can change this.

Each site identifies which functions are commercial and which are exempt from competition. There are wide variations both within and across the services. The same function may be considered inherently governmental at one base, exempted for training at another base, and outsourced at a third.

Sites can use "reason codes" to identify **why they** do not compete commercial activities. "National defense" and "rotation/career progression" are the most common reasons for keeping work in-house. **Here again, different sites use these reason codes very differently.** Many technical services are being "redefined as governmental," and so are not competed. The Navy should not allow commercial activities to be "redefined."

Many studies were canceled due to time limitations and moratoriums. Many of these may be good candidates to study again.

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The Air Force makes the competitions a regular responsibility of the personnel office. It also provides training to managers whether or not their function is currently under study. A-76 competitions and contract administration should be part of every management or contracting course.

The Army and Air Force have revamped their A-76 training courses. Both services are relying on commercially provided courses and software as part of their training efforts. These packages could be adapted by the Navy with little or no modification.

Increasing the Scope of Competitions

- Scrub exempted functions here, too
 - Governmental, RDT&E, reasons
- Bundle work into multifunction competitions
 - Combining functions into business units commonly found in commercial sector
- Look within a region or major command

In addition to increasing the number of competitions, it's important to increase the scope of each competition. In this way, the Navy can hold larger competitions, which tend to have larger savings. (However, larger competitions have historically taken longer than smaller ones).

To increase the scope of competitions, it's important to look at exempted functions. For example, the distinction between RDT&E (which is exempted by statute from A-76 competition) and RDT&E Support (which can be competed) is fuzzy. Different sites distinguish between the two differently. Removing the distinction (or, at least, defining it more clearly) could lead to new competitions.

The Defense Logistics Agency uses business case analysis to combine functions into units found in the commercial sector. This seems like a promising way to bundle functions together, because these units are more likely to receive multiple bidders when competed. Simply lumping unlike functions together may not lead to successful competitions with large savings.

Arranging competitions should be part of any regionalization efforts undertaken by the Navy. For example, since family housing can be spread among many sites within a given region, a single housing maintenance competition may be better than single site competition.